

July 11, 2011

To the Honorable Board of Supervisors  
County of Los Angeles, California

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the County of Los Angeles, California (County) for the year ended June 30, 2010. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards* and OMB Circular A-133, as well as certain information related to the planned scope and timing of our audit. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and OMB Circular A-133

Our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

In planning and performing our audit, we considered the County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. We also considered internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

As part of obtaining reasonable assurance about whether the County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit. Also in accordance with OMB Circular A-133, we examined, on a test basis, evidence about the County's compliance with the types of compliance requirements described in the "U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement" applicable to each of its major federal programs for the purpose of expressing an opinion on the County's compliance with those requirements. While our audit provides a reasonable basis for our opinion, it does not provide a legal determination on the County's compliance with those requirements.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing.

## Significant Audit Findings

### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 1 to the financial statements. The County adopted the following accounting pronouncements during the fiscal year 2010:

- GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets, and the existing guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable.
- GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The statement establishes accounting and financial reporting requirements for derivative instruments, requiring derivative investments to be measured at fair value and reported within the Statement of Net Assets.

Except as noted above, the application of existing accounting policies was not changed during the fiscal year 2010. We noted no transactions entered into by the County during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Accrual and disclosure of claims liabilities
- Contractual adjustments and allowances for uncollectible amounts for patient accounts receivable
- Depreciation estimates for capital assets and infrastructures assets
- Fair value of investments

Management's estimates were based on the following:

- The liability for workers' compensation and long-term disability claims were based on actuarial valuations. General liability, automobile and medical malpractice liability claims were based on historical loss and other data.
- The liability for other claims was determined by County Counsel and attorney judgment about the ultimate outcome of the claims.
- Estimated contractual adjustments were based on prior cost report adjustments, previous regulatory settlements, and the potential future retrospective adjustments based on current laws and regulations.
- Estimated allowances for uncollectible amounts for patient accounts receivable were based on historical loss levels.
- Useful lives for depreciable capital assets and infrastructure were determined by management based on the nature of the asset. The County uses the straight-line method of depreciation.
- The fair value of investments was based on quoted market prices and pricing models.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements was:

- The disclosure of Hospital and Other Program Revenues in Note 13 to the financial statements related to hospital funding sources.

#### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes corrected and uncorrected misstatements of the financial statements. Management has determined that the effects of uncorrected misstatements are immaterial both individually and in the aggregate, to the financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

#### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

#### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 13, 2010.

#### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the county's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

#### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the County's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Board of Supervisors and management of the County and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink that reads "Macias Gini & O'Connell LLP". The signature is written in a cursive, flowing style.

Macias Gini & O'Connell LLP

County of Los Angeles  
Summary of Corrected Misstatements - Government Wide  
June 30, 2010

<u>Description</u>	<u>Balance Sheet</u>		<u>Income Statement</u>	
	Debit	Credit	Debit	Credit
1 Pooled cash and investments - operating	\$ 319,536,000	\$	\$	\$
Pooled cash and investments- other		319,536,000		
<i>Reclassification from Pooled cash investments- other to</i>				
<i>Pooled cash and investments- operating</i>				
	<u>\$ 319,536,000</u>	<u>\$ 319,536,000</u>	<u>\$ -</u>	<u>\$ -</u>

County of Los Angeles  
Summary of Corrected Misstatements - Fund Based  
June 30, 2010

<u>Description</u>	<u>Balance Sheet</u>		<u>Income Statement</u>	
	Debit	Credit	Debit	Credit
1 Long Term Receivables CBRC - Noncurrent	\$ 60,680,349	\$	\$	
Long Term Receivables CBRC - Current		60,680,349		
<i>To reclassify long-term receivables CBRC from current assets to noncurrent assets on the financial statements for LAC+USC</i>				
2 Long Term Receivables CBRC - Noncurrent	15,622,201			
Long Term Receivables CBRC - Current		15,622,201		
<i>To reclassify long-term receivables CBRC from current assets to noncurrent assets on the financial statements for Harbor UCLA</i>				
3 Long Term Receivables CBRC - Noncurrent	36,122,370			
Long Term Receivables CBRC - Current		36,122,370		
<i>To reclassify long-term receivables CBRC from current assets to noncurrent assets on the financial statements for MLK</i>				
4 Long Term Receivables CBRC - Noncurrent	58,615,610			
Long Term Receivables CBRC - Current		58,615,610		
<i>To reclassify long-term receivables CBRC from current assets to noncurrent assets on the financial statements for Olive View</i>				

County of Los Angeles  
Summary of Corrected Misstatements - Fund Based  
June 30, 2010

<u>Description</u>	<u>Balance Sheet</u>		<u>Income Statement</u>	
	Debit	Credit	Debit	Credit
5 Long Term Receivables CBRC - Noncurrent	\$ 23,486,624	\$	\$	\$
Long Term Receivables CBRC - Current		23,486,624		
<i>To reclassify long-term receivables CBRC from current assets to noncurrent assets on the financial statements for Rancho Los Amigos</i>				
	<u>\$ 194,527,154</u>	<u>\$ 194,527,154</u>	<u>\$ -</u>	<u>\$ -</u>

County of Los Angeles  
Summary of Uncorrected Misstatements - Government-Wide  
June 30, 2010

<u>Description</u>	<u>Balance Sheet</u>		<u>Income Statement</u>	
	Debit	Credit	Debit	Credit
1 Interest Receivable	\$ 5,454,000	\$	\$	\$
Pooled Cash & Investments		5,454,000		
<i>To reclassify accrued interest purchased from pooled cash and investments to interest receivable</i>				
2 Estimated Liabilities/Self Insurance > 1 year	4,503,000			
OPEB Liabilites > 1 year		4,503,000		
<i>To properly reclassify the CDC OPEB liabilities from estimated liabilities/self insurance</i>				
	<u>\$ 9,957,000</u>	<u>\$ 9,957,000</u>	<u>\$ -</u>	<u>\$ -</u>

County of Los Angeles  
Summary of Uncorrected Misstatements - Fund Based  
June 30, 2010

<u>Description</u>	<u>Balance Sheet</u>		<u>Income Statement</u>	
	Debit	Credit	Debit	Credit
1 Issuance of Debt (Capital Projects - Public Buildings)	\$	\$	\$	
Notes Payable < 1 year (Capital Projects - Public Buildings)		22,977,000	22,977,000	\$
<i>Public Buildings Fund - Capital Projects: Reclassification due to commercial paper being short-term program and all liability are due within 1 year</i>				
2 Fund Balance - Assets unavailable for appropriation (General Fund)	15,883,334			
Fund Balance - Unreserved (General Fund)		15,883,334		
<i>To properly reclassify long-term receivables as unavailable fund balance</i>				
3 Inventory	56,500			
Expense - Services & Supplies				56,500
<i>To correct understatement of inventory at Rancho Los Amigos at June 30, 2010</i>				
4 Net patient service revenue			51,782	
Accounts Receivable		51,782		
<i>To correct overstatement of SB 1732 revenue accrual for Rancho Los Amigos at June 30, 2010</i>				
5 Expense - Services & Supplies			54,801	
Inventory		54,801		
<i>To correct overstatement of inventory at MLK at June 30, 2010</i>				



County of Los Angeles  
Summary of Uncorrected Misstatements - Fund Based  
June 30, 2010

<u>Description</u>	<u>Balance Sheet</u>		<u>Income Statement</u>	
	Debit	Credit	Debit	Credit
6 Third Party Payor Liabilities (Section 1011) Net Patient Service Revenue <i>To adjust the Section 1011 liabilities and related revenues at LAC+USC</i>	\$ 2,709,409	\$	\$	\$ 2,709,409
7 Third Party Payor Liabilities (Section 1011) Net Patient Service Revenue <i>To adjust the Section 1011 liabilities and related revenues at Harbor UCLA</i>	733,483			733,483
8 Third Party Payor Liabilities (Section 1011) Net Patient Service Revenue <i>To adjust the Section 1011 liabilities and related revenues at MLK</i>	187,000			187,000
9 Third Party Payor Liabilities (Section 1011) Net Patient Service Revenue <i>To adjust the Section 1011 liabilities and related revenues at Olive View</i>	715,325			715,325
10 Revenue - Harbor UCLA Accounts Receivable - Harbor UCLA <i>To correct the overstatement of current year Medicare revenue accrual at Harbor UCLA</i>		8,584	8,584	
11 Revenue - Harbor UCLA Accounts Receivable - Harbor UCLA <i>To correct the overstatement of fiscal year 08-09 Medicare revenue accrual at Harbor UCLA</i>		4,472	4,472	

County of Los Angeles  
Summary of Uncorrected Misstatements - Fund Based  
June 30, 2010

<u>Description</u>	<u>Balance Sheet</u>		<u>Income Statement</u>	
	Debit	Credit	Debit	Credit
12 Accounts Receivable - Rancho Los Amigos	\$ 4,068	\$	\$	
Revenue - Rancho Los Amigos				\$ 4,068
<i>To correct the understatement of current year Medicare revenue accrual at Rancho Los Amigos</i>				
13 Revenue - Olive View			48,729	
Accounts Receivable - Olive View		48,729		
<i>To correct the overstatement of current year Medicare revenue accrual at Olive View</i>				
14 Pooled Cash & Investments - Operating	4,050,000			
Other Investments		4,050,000		
<i>To properly reclassify commercial paper from other investments to pooled cash and investments - operating</i>				
	<u>\$ 24,339,119</u>	<u>\$ 43,078,702</u>	<u>\$ 23,145,368</u>	<u>\$ 4,405,785</u>